

# Introduction

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## I. “THE METAPHYSICS OF PATENT LAW”

On April 18, 1951, Congressman Joseph R. Bryson of South Carolina introduced a new patent bill, the most significant revision of patent law in more than a century.<sup>1</sup> Like the start-up company Google nearly half a century later, the Patent Act of 1952 largely sprung from the ingenuity of two men—Pasquale Joseph Federico, Chief Examiner of the U.S. Patent Office, and Giles Sutherland Rich, patent attorney and President of the New York Patent Law Association.<sup>2</sup> Rich would become Chief Judge of the Court of Customs and Patent Appeals, and then later a judge of the newly created Court of Appeals for the Federal Circuit, the nation’s patent court. Judge Rich was widely regarded as being one of the most influential individuals in patent law.<sup>3</sup> He remarked that if patent law was “the metaphysics” of the law, then patent misuse is the “metaphysics of patent law.”<sup>4</sup>

Patent misuse finds its origins in the equitable doctrine of unclean hands, “whereby a court of equity will not lend its support to enforcement of a patent that has been misused.”<sup>5</sup> In invoking the defense of misuse,

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<sup>1</sup> H.R. 3760, 82nd Cong. § 1 *et seq.* (1951).

<sup>2</sup> *Giles Sutherland Rich*, WIKIPEDIA, [http://en.wikipedia.org/wiki/Giles\\_Sutherland\\_Rich](http://en.wikipedia.org/wiki/Giles_Sutherland_Rich).

<sup>3</sup> Jon Thurber, *Judge Giles Rich; Patent Law Authority*, LOS ANGELES TIMES, June 14, 1999, <http://articles.latimes.com/1999/jun/14/news/mn-46460> (noting that Judge Rich was “widely regarded as the century’s preeminent lawyer, jurist and scholar in the patent field”).

<sup>4</sup> See *Rohm & Haas Co. v. Dawson Chem. Co.*, 599 F.2d 685, 706 (5th Cir. 1979) *aff’d*, 448 U.S. 176 (1980) (“[P]atent cases are the only cases argued by professionals and decided by amateurs. We take some comfort in noting that any shortcomings of our effort can safely be laid to the difficulty of the subject matter. Mr. Giles S. Rich observed on several occasions during the hearings on section 271 that patent law is ‘the metaphysics’ of the law and that contributory infringement/patent misuse issues are the metaphysics of patent law”). Google was founded by Sergey Brin and Larry Page in 1998. Management Team, GOOGLE, <http://www.google.com/about/company/facts/management/>.

<sup>5</sup> See *B. Braun Med., Inc. v. Abbot Labs.*, 124 F.3d 1419, 1427 (Fed. Cir. 1997).

defendants accept that they have infringed another's patents whether by breach of a license agreement or some other form. At the same time, these defendants temerarily argue that justice requires the courts to aid them by tempering the letter of the law, because the patentees had by their own conduct reached beyond the boundaries of their patent grant in a manner contrary to public policy.<sup>6</sup> Patentees found guilty of misuse are punished by having the patent or patents in question rendered unenforceable until the effects of the misuse have been purged.<sup>7</sup> In policing patent misconduct, misuse therefore delineates the metaphysical boundary beyond which the patent grant, according to Thomas Jefferson, becomes "more embarrassment than advantage to society."<sup>8</sup> It acts as a public injunction against abuses of the privilege granted under patent law, and balances public and private interests.<sup>9</sup>

At the heart of misuse lies a delicate balance. The patent grant is based upon a constitutional privilege to "promote the Progress of Science and the useful Arts."<sup>10</sup> To fulfill this mandate, Congress allows patentees to exclude others, earn royalties, and set the terms of access for those benefitting from the use of technology protected by patents. This limited monopoly rewards innovators who take risks and invest in innovation and the commercialization of their inventions, incentivizing them to develop and market inventions that may not have been realized otherwise.<sup>11</sup> The

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<sup>6</sup> See *Mallinkrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992).

<sup>7</sup> *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942) ("Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated").

<sup>8</sup> Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813), available at: [http://press-pubs.uchicago.edu/founders/documents/a1\\_8\\_8s12.html](http://press-pubs.uchicago.edu/founders/documents/a1_8_8s12.html).

<sup>9</sup> *Syndicate Sales, Inc. v. Floral Innovations, Inc.*, 2012 U.S. Dist. LEXIS 140345, at \*6–7 (S.D. Ind. Sept. 28, 2012) ("A patent is, therefore, appropriately viewed as a contract between the patentee and the public. Patent misuse occurs when the scope of an otherwise valid patent monopoly extends beyond the prescribed boundaries of the patentee's control," citing *Zenith Radio Corp. v. Hazeltine Res., Inc.*, 395 U.S. 100, 136, 89 S. Ct. 1562, 23 L. Ed. 2d 129 (1969)). *SmithKline Beecham Corp. v. Apotex Corp.*, 247 F. Supp. 2d 1011, 1046 (N.D. Ill. 2003). ("The core of that doctrine is the proposition that a patent may not be used to obtain more protection from competition than patent law contemplates").

<sup>10</sup> U.S. CONST. art. I, § 8, cl. 8. The Intellectual Property Clause of the Constitution gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries," *ibid*.

<sup>11</sup> It is worth mentioning at this early stage that such legal monopolies do not necessarily translate into economic monopolies which concern the antitrust laws.

lure of exclusive rights also attracts others into the inventive enterprise. It feeds into a virtuous ecosystem of innovation where each successive generation “stand[s] on the shoulders of Giants”<sup>12</sup> as new entrants, licensees, and competitors are enabled to build upon the patent owner’s technology, which is disclosed in return for the monopoly protection.<sup>13</sup> When patent owners are overcompensated for their contributions, it disrupts the incentive system and results in inefficiency and reduced technological output.

Misuse typically arises in the context of licensing agreements, and is commonly associated with tying arrangements, where patentees sell one product (the tying product) but only on condition that the buyer also purchases a different (or tied) product, or in cases where patentees attempt to extend the life of the royalty period due under their patents through contracts. Agreements and conduct which offend competition policy invoke the other great theme of this book—the antitrust laws. Patentees may engage in conduct which amounts to antitrust violations and will not be able to restrain infringement by others, even if the patent is valid, because “[e]ven constitutionally protected property rights such as patents may not be used as levers for obtaining objectives proscribed by the antitrust laws.”<sup>14</sup>

Misuse is not restricted to a closed category of “wrongful” practices, but “appl[ies] to whatever the form of the suit by the patent owner may be.”<sup>15</sup>

As Judge Richard Posner explained “[a] patent confers a monopoly in the sense of a right to exclude others from selling the patented product. But if there are close substitutes for the patented product, the patent ‘monopoly’ is not a monopoly in a sense relevant to antitrust law.” This important distinction has now formed a settled part of the IP-Antitrust canon. Thomas F. Maffei, *The Patent Misuse Doctrine: A Balance of Patent Rights and the Public Interest*, 11 B.C.L. REV. 46 (1969), available at: <http://lawdigitalcommons.bc.edu/bclr/voll1/iss1/4> (“The term ‘monopoly’, however, must be used carefully in the antitrust and patent contexts because of its changing connotation”); Kevin J. Arquit, *Patent Abuse and the Antitrust Laws*, 59 ANTITRUST L.J. 739, 740 (1991) (“An often-neglected point, though critical, is that a patent monopoly does not invariably translate into a monopoly in what an antitrust lawyer would describe as a relevant market”).

<sup>12</sup> Letter from Isaac Newton to Robert Hooke (1676) (“What Descartes did was a good step. You have added much several ways, and especially in taking the colours of thin plates into philosophical consideration. If I have seen a little further it is by standing on the shoulders of Giants”).

<sup>13</sup> See 35 U.S.C. § 112, cl. 1 (1952) (requiring the patent applicant be fully in possession of the invention claimed and to disclose his invention in a manner which enables a person ordinarily skilled in the art to make and use the invention).

<sup>14</sup> Joel R. Bennett, *Patent Misuse: Must an Alleged Infringer Prove an Antitrust Violation?*, 17 AIPLA Q.J. 1, 8 (1989).

<sup>15</sup> *United States v. United States Gypsum Co.*, 124 F. Supp. 573, 594–95 (D.D.C. 1954).

Patentees guilty of misuse must purge their misconduct to the satisfaction of the court if they wish to realize the remedies they seek.<sup>16</sup> Purging requires patentees to show that they have completely abandoned the misconduct, and that their “baleful effects” have dissipated.<sup>17</sup> What amounts to a successful dissipation depends on the nature and extent of the misuse. Cancellation of an offending licensing clause may be sufficient.<sup>18</sup> Where the conduct involves a price-fixing conspiracy, the violation is presumed to continue until some affirmative act of termination or withdrawal is shown.<sup>19</sup> However, where misuse consists of “extensive and aggravated misconduct over several years,” which “substantially rigidified the price structure of an entire market and suppressed competition over a wide area, affirmative action may be essential to effectively dispel the consequences of the unlawful conduct.”<sup>20</sup> Abandonment may occur at any time, even after the filing of the suit in which the question of misuse is raised. If the misuse is in the terms of licenses, the patentee may simply cancel the licenses. The standard is an objective one, and the abandonment need not take the particular form desired by the defendant.<sup>21</sup> At the same time, “[t]here is no set time period for purging; the time will vary with the facts of each case,” since “whether a purge has been accomplished is a factual matter and is ‘largely discretionary with the trial court.’”<sup>22</sup> Additionally, successful defendants may recover expenses in defending the action in an award for damages.<sup>23</sup>

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<sup>16</sup> See *In re Yarn Processing Patent Validity*, 472 F. Supp. 180, 183 (S.D. Fla. 1979) (noting that since the doctrine of misuse was developed based on “the strong public policy against allowing one who wrongfully uses a patent to enforce it during the misuse, the remedy of purge has developed, requiring that there be a showing that a dissipation or purge of the misuse has occurred, before the patentee may enforce his patent”).

<sup>17</sup> *U. S. Gypsum*, 124 F. Supp. at 594–95 (“Because of the nature of patent grants and because of the nature of this equity doctrine, such owner may, as to future protection of his rights and after the baleful effects of the misuse have been fully dissipated, relieve himself of this impediment by ceasing the unlawful use. This is the doctrine of ‘purge’”).

<sup>18</sup> See *Berlenbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782, 785 (9th Cir. 1964).

<sup>19</sup> *United States v. Consolidated Laundries, Corp.*, 291 F.2d 563, 573 (2d Cir. 1961).

<sup>20</sup> *Ansul Co. v. Uniroyal, Inc.*, 306 F. Supp. 541, 560 (S.D.N.Y. 1969) (citing *Preformed Line Prod. Co. v. Fanner Mfg. Co.*, 328 F.2d 265, 279 (6th Cir. 1964), cert. denied, 379 U.S. 846 (1964)).

<sup>21</sup> See *B. B. Chemical Co. v. Ellis*, 314 U.S. 495 (1942).

<sup>22</sup> *Jack Winter, Inc. v. Koratron Co., Inc.*, 375 F. Supp. 1, 71 (N.D. Cal. 1974) (quoting *Preformed Line Prod.*, 328 F.2d at 279).

<sup>23</sup> *Kearney & Trecker Corp. v. Cincinnati Milacron Inc.*, 562 F.2d 365, 374 (6th Cir. 1977) (“one who has established or is attempting to establish an illegal monop-

By “metaphysical,” Judge Rich may have meant “difficult to understand.” And it is so. Misuse lies at the crossroads of innovation and competition, overlapping messily with laws and doctrines which profess to do much the same things.<sup>24</sup> In particular, courts disagree whether misuse must first constitute an antitrust violation or whether it is different, and if so, how.<sup>25</sup> Further, as an equitable defense, misuse rests uneasily in the minds of judges who see commercial certainty as a better measure of justice than responses calibrated *ad hoc* to patent misdemeanors.<sup>26</sup> Finally, decades of cavalier assertions of misuse by defendants, and the unwillingness of courts to articulate and develop a framework for misuse has cast it into a state of dubious repute and vitality. In 1997, the *Harvard Law Review* published a note carrying the provocative title “Is the Patent Misuse Doctrine Obsolete?” The note observed that “[b]oth judges and commentators have argued that this equitable doctrine should be eliminated, primarily because they believe that the antitrust laws more adequately address the same concerns.”<sup>27</sup> Without a clear and general theory for resolving the

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oly by fraud on the Patent Office or misuse of a patent should not be permitted to further this goal by means of an infringement suit. When the antitrust violations are causally connected to the infringement action it is permissible to include the expenses of defending that action in the award of damages”).

<sup>24</sup> The Supreme Court recently noted that: “different rules of law have supported challenges to tying arrangements. They have been condemned as improper extensions of the patent monopoly under the patent misuse doctrine, as unfair methods of competition under § 5 of the Federal Trade Commission Act, 15 U.S.C. § 45, as contracts tending to create a monopoly under § 3 of the Clayton Act, 15 U.S.C. § 14, and as contracts in restraint of trade under § 1 of the Sherman Act.” *Illinois Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 34 (2006). See, e.g., Kelly Hershey, *Scheiber v. Dolby Laboratories, Inc.*, 18 BERKELEY TECH L.J. 159, 161 (2003) (“The patent misuse doctrine was developed to regulate the intersection of the patent and antitrust laws.”). See also *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706 (Fed. Cir. 1992) (discussing exhaustion and misuse).

<sup>25</sup> One court even mistakenly referred to an antitrust counterclaim as an affirmative patent misuse claim. See, e.g., *Bendix Corp. v. Balax, Inc.*, 471 F.2d 149, 158 (7th Cir. 1972).

<sup>26</sup> *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 512 (7th Cir. 1982) (“If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty”).

<sup>27</sup> See Note, *Is the Patent Misuse Doctrine Obsolete?*, 110 HARV. L. REV. 1922, 1922 (1997); see also James B. Kobak, Jr., *A Sensible Doctrine of Misuse for Intellectual Property Cases*, 2 ALB. L.J. SCI. & TECH. 1, 38 (1992) (suggesting, among other reforms, limiting misuse to those “attempts [by patent holders] to enforce offending provisions”); Mark A. Lemley, *The Economic Irrationality of Patent Misuse*, 78 CAL. L. REV. 1599, 1631 (1990) (“there is no reason to retain

problem of what practices should be viewed as appropriate exercises of the patentee's statutory patent rights, the ambiguity surrounding misuse will remain intractable, even if the doctrine itself lingers on.<sup>28</sup>

## II. WHY STUDY MISUSE?

Why study patent misuse? The most obvious reason is that it is a doctrine that has been a part of patent law at least since 1917. It also continues to feature in patent wars. Recently defendants Apple and LG alleged patent misuse based on the patentee's violation of a reasonable and non-discriminatory licensing ("RAND") agreement.<sup>29</sup> The District Court for the Southern District of California, in refusing to dismiss the misuse defense, noted that "several courts have held that a patentee's violation of its RAND obligations may in certain circumstances constitute patent misuse."<sup>30</sup>

But there is another reason. The study of patent misuse also reveals fault lines that are relevant not only for misuse cases but also for cases on what the scope of patent protection should be and also on the interface

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specific parts of the patent misuse doctrine, and very good reason to abolish the entire defense"); but see Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, n.188 (1999) ("I must here confess error in this debate. I now believe that there may be circumstances in which rules peculiar to patent law make it appropriate to apply the misuse doctrine but do not warrant invocation of antitrust law. So too with copyright law. The application of the patent (or copyright) misuse doctrines, however, should be coupled with a reasonable mechanism to link the harm charged with the remedy administered; on that point (the thesis of my earlier paper), I am resolute").

<sup>28</sup> 6 Donald S. Chisum, CHISUM ON PATENTS § 19.04 (2011) ("[I]t is clear that the courts lack a clear and general theory for resolving that inquiry. Thus, individual problems are resolved in a piecemeal fashion, and it is difficult to harmonize decisions in one area (such as price restrictions) with decisions in another (such as field-of-use restrictions)").

<sup>29</sup> *MultimediaPatent Trust v. Apple Inc.*, 2012 U.S. Dist. LEXIS 167479, at \*73–75 (S.D. Cal. Nov. 9, 2012). See also *UTStarcom, Inc. v. Starent Networks, Corp.*, 2008 U.S. Dist. LEXIS 98498 (N.D. Ill. Dec. 5, 2008) (finding that the patentee's failure to offer the defendant a license to the patents on reasonable, non-discriminatory terms prior to suit could be evidence supporting a finding of patent misuse.); *Apple, Inc. v. Motorola Mobility, Inc.*, 2011 U.S. Dist. LEXIS 72745, at \*22–42 (W.D. Wis. Jun. 7, 2011) (finding accused infringer plaintiff had properly pleaded patent misuse based on the patentee's alleged violation of its RAND obligations).

<sup>30</sup> *MultimediaPatent Trust*, at \*79 (citing *Apple*, 2011 U.S. Dist. LEXIS 72745, at \*40–42; *UTStarcom*, 2008 U.S. Dist. LEXIS 98498, at \*6).

of antitrust law and patent law. It is no coincidence that the heyday of a narrow interpretation of patent law, vigorous antitrust oversight of patents and a vigorous view of patent misuse co-existed in the same period of time. Patent misuse is a doctrine whose scope will depend at least in part upon the courts' views of the role and value of patents, and the degree to which one can trust patent owners not to abuse or misuse the rights that they have.

The scope of misuse reflects the wider policy choices that the courts and government have to make about access and exclusivity. As the final arbiter on patent law, the Court's focus on these industries worries some patent practitioners, who think its recent decisions were based on a misaligned view of how these industries work.<sup>31</sup> It is not out of the question that the Court might take a position that is at odds with the Federal Circuit's current skeptical view of patent misuse,<sup>32</sup> which, itself, is at odds with the positive approach of earlier Supreme Court cases.<sup>33</sup>

A tighter rein on patents would defeat the incentives provided by their exclusivity. On the other hand, making it harder for defendants to allege misuse could encourage abusive conduct by patentees to the detriment of consumers and the "Progress of Science and the useful Arts". What is clear is that this is the beginning of a new normal for both the Federal Circuit and the Supreme Court. Conflicting views on innovation and competition are, and will continue to be, fought out in future cases.

### III. THE STUDY

#### A. Through the Lens of Freakonomics

This book is a study of patent misuse. It combines doctrinal and policy discussion with empirical research. There is a fairly substantive volume of case law and literature on misuse. This may tempt some to lean on conventional wisdom as the sole and accurate guide to its past, present,

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<sup>31</sup> See, e.g., Gene Quinn, *Killing Industry: The Supreme Court Blows Mayo v. Prometheus*, IP WATCHDOG (Mar 20, 2012), available at: <http://www.ipwatchdog.com/2012/03/20/supreme-court-mayo-v-prometheus/id=22920/> ("It is shocking that all 9 Justices of the Supreme Court know so little about patent law, yet the collective fate of the industry rests on those with only a cursory understanding of patent law—and that is at best!").

<sup>32</sup> *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318 (Fed. Cir. 2010) cert. denied, 131 S. Ct. 2480 (2011).

<sup>33</sup> See, e.g., *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942).

and future. But conventional legal doctrine, like conventional wisdom, derives from a small set of cases selected by case reporters and academics. Economist Kenneth Galbraith explains why people sometimes have tremendous difficulty unfastening themselves from conventional wisdom, even where it is misplaced:

We associate truth with convenience, with what closely accords with self-interest and personal well-being or promises best to avoid awkward effort or unwelcome dislocation of life. We also find highly acceptable what contributes the most to self-esteem. . . . But perhaps most important of all, people approve most of what they best understand. As just noted, economic and social behaviors are complex, and to comprehend their character is mentally tiring. Therefore we adhere, as though to a raft, to those ideas which represent our understanding. This is a prime manifestation of vested interest. For a vested interest in understanding is more preciously guarded than any other treasure. It is why men react, not infrequently with something akin to religious passion, to the defense of what they have so laboriously learned.<sup>34</sup>

Reflecting on Galbraith's observation, Stephen Dubner and Steven Levitt, authors of *Freakonomics*, conclude that "conventional wisdom in Galbraith's view must be simple, comfortable and comforting—though not necessarily true."<sup>35</sup> This book therefore seeks to present a systematic, comprehensive account of the recent history of case law and the current state of misuse and its relationship with antitrust law. Seminal patent cases have quoted Justice Holmes' quip that "a page of history is worth a volume of logic."<sup>36</sup> This study concurs, and seeks to provide the reader with an aerial view of misuse as well as focusing on its treatment in U.S. courts at every level. It is based on the use of the quantitative analysis of cases complemented by interviews.

## B. Case Content Analysis

The study is based on a dataset consisting of all reported U.S. federal opinions that provided substantial analysis of patent misuse from January 1,

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<sup>34</sup> John Kenneth Galbraith, *THE AFFLUENT SOCIETY* 7 (1998).

<sup>35</sup> Stephen Dubner & Steven Levitt, *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* 115 (2006).

<sup>36</sup> See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395 (2006) ("When it comes to discerning and applying those standards, in this area as others, 'a page of history is worth a volume of logic.' *New York Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921) (opinion for the Court by Holmes, J.)). In the copyright context, see *Eldred v. Ashcroft*, 537 U.S. 186, 200 (2003) ("To comprehend the scope of Congress' Copyright Clause power, 'a page of history is worth a volume of logic'").

1953, the effective date of the U.S. Patent Act, through December 31, 2012.<sup>37</sup> The result is a dataset spanning 60 years, with 368 cases coded into over 12,000 data points.

This portion of the study does not set out to analyze the doctrine contained in case law. Rather, cases are relevant to the quantitative analysis only to the extent that they reveal a feature of misuse case law that can be categorized and sub-categorized. For example, each of the various categories of misuse collectively form a category called “the categories of misuse” which is itself a category presented in the dataset.

Case content analysis lays the theoretical foundation and provides structure to the study. It identifies markers that facilitate forming informed hypotheses about factors driving case outcomes in practice. It will determine whether conventional wisdom on misuse has empirical support. It highlights key aspects of misuse, including the way it has been interwoven with antitrust principles. It “allows scholars to verify or refute the empirical claims about case law that are implicit or explicit in all branches of legal scholarship,”<sup>38</sup> by “selecting cases likely to provide information pertinent to the study, coding the content of the collected cases, and analyzing the coded content.”<sup>39</sup>

This naturally raises the question of selection bias, because few disputes reach trial and even those which do may not result in a published opinion.<sup>40</sup> Further, the nature of case selection in a study of this kind is necessarily underexhaustive. Between 1983 and 2008, nearly 50,000

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<sup>37</sup> Act of July 19, Pub. L. No. 82-593, 66 Stat. 815, §4 (1952) (“This Act shall take effect on January 1, 1953 and shall apply to all applications for patent filed on or after such date and to all patents granted on such applications”). “Substantial analysis” refers to patent cases which both mention and analyze the two issues rather than merely citing them.

<sup>38</sup> Mark A. Hal & Ronald F. Wright, *Systematic Content Analysis of Judicial Opinions*, 96 CAL. L. REV. 63, 67 (2008).

<sup>39</sup> Lee Petherbridge et al., *The Federal Circuit and Inequitable Conduct: An Empirical Assessment*, 84 S.CAL L. REV. 1293, 1303 (2011).

<sup>40</sup> Additionally, summary affirmances under FED. R. CIV. p. 36, while omitted are also not relevant to the study as they do not add statements of law or explanations to the facts. However, as others have noted, outcomes under Rule 36 decisions may be relevant because the appellate court may have applied the relevant doctrine, here misuse, to resolving the issue on appeal. See, e.g., Lee Petherbridge et al., *supra* note 39, at n. 41 (noting that Rule 36 dispositions may increase the size of a sample of case outcomes, but that “[t]he text of opinions—the evidence of the law cited in briefs and argued to courts—is unchanged.”); see also Christian A. Chu, *Empirical Analysis of the Federal Circuit’s Claim Construction Trends*, 16 BERKELEY TECH. L.J. 1075, 1128 (2001) (reporting the use of Rule 36 in 21% of patent cases).

patent cases were filed in the district courts alone.<sup>41</sup> At the same time, the impact of this aspect of the study on its veracity and worth should not be exaggerated. Case content analysis is a well accepted method of empirical legal research in patent law and elsewhere, and the data systematically and comprehensively collected flow from the same sources which legal professionals in every field continue to rely upon.<sup>42</sup> It represents the entire population of reported misuse cases during this period, and in the unlikely event it does not, it represents nearly the entire population that allows the study to make a practicably generalizable claim to statistical significance as a sample of a super-population.<sup>43</sup>

The content for the cases studied was then manually coded along 36 distinct variables capturing various facts of misuse, from the physical and legal characteristics of misuse cases (industries, case distribution by court level and circuit, posture, type of alleged misuse and related anti-trust violations, cases outcomes, dissents and petitions for certiorari) to the policy undergirding misuse (patent or antitrust policy, bad faith), to how it relates with antitrust law (broader, different or coextensive), and how judges defined the proper scope of a patent (by its claims, in relation to time or product embodying the technology). In order to study trends over time, some arbitrary measures were selected, such as over 10-year periods, over 15-year periods (where 10-year periods would yield to closely bunched results), as well as before and after 1988, the year the Patent Misuse Reform Act was enacted. Sometimes, such as when studying trends in the industries in which misuse cases arose, the Act had nothing to do with the trends. The 1988 cut-off point, however, remains a useful

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<sup>41</sup> Christian E. Mammen, *Controlling the "Plague": Reforming the Doctrine of Inequitable Conduct*, 24 BERKELEY TECH. L.J. 1329, 1349 (2009).

<sup>42</sup> See, e.g., Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978–2005*, 156 U. PA. L. REV. 549 (2008); John R. Allison & Mark A. Lemley, *Who's Patenting What? An Empirical Exploration of Patent Prosecution* 53 VAND. L. REV. 2099 (2000); Christopher A. Cotropia, *Nonobviousness and the Federal Circuit: An Empirical Analysis of Recent Case Law*, 82 NOTRE DAME L. REV. 911, 941 (2007); Lee Petherbridge & R. Polk Wagner, *The Federal Circuit and Patentability: An Empirical Assessment of the Law of Obviousness*, 85 TEX. L. REV. 2051, 2070–71 (2007); David L. Schwartz, *Practice Makes Perfect?: An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 MICH. L. REV. 223, 237–38 (2008); R. Polk Wagner & Lee Petherbridge, *Is the Federal Circuit Succeeding? An Empirical Assessment of Judicial Performance*, 152 U. PA. L. REV. 1105, 1133–34 (2004).

<sup>43</sup> See Lee Petherbridge et al., *supra* note 39, at 1308 (noting their endeavor to collect the entire population of written inequitable conduct analyses over the period studied, which are “by definition a statistically significant representation of the population”).

broad-brush division that cuts the 60-year period into 35 years from the beginning period of the study and 25 years after, up to December 31, 2012.

Much of the coding was objective. However, some of it could not be so. One of the most challenging aspects of defining the variables was finding a way to effectively deconstruct the process of how a judge decides a case. As Judge Richard Posner of the Court of Appeals for the Seventh Circuit noted with regard to judicial reasoning:

The published opinion often conceals the true reasons for a judicial decision by leaving them buried in the judicial unconscious. Had the intuitive judgment that underlies the decision been different, perhaps an equally plausible opinion in support of it could have been written. If so, the reasoning in the opinion in support of it is not the real cause of the decision, but a rationalization. This is not to denigrate the social value of published opinions but merely to indicate their limitations. They not only aid in catching the errors that are inevitable in intuitive reasoning about complex issues; they not only flag, if only by omission, any gap between the outcome and the capacity of a legalist analysis to generate it; they also facilitate the consistent decision of future cases. The first decision in a line of cases may be the product of inarticulable emotion or hunch. But once it is given articulate form, that form will take on a life of its own—a valuable life that may include binding the author and other judges of his court (along with lower-court judges) and thus imparting needed stability to law through the doctrine of precedent, though a death grip if judges ignored changed circumstances that make a decision no longer a sound guide.<sup>44</sup>

After reading through a few dozen cases, the rhetoric begins to settle into a discernable, though inconsistent pattern. Naturally, the cleaving of fluid legal analysis into discrete categories for statistical enumeration is liable to appear artificial, and often it is. The nature of empirical analysis, putting numbers on people and their behavior, is ultimately an artificial exercise, and the limits of the study in this respect must be readily acknowledged. For example, judges who write the opinions may present a strategic view of the facts or law to shape the doctrine. Litigants may also decide to emphasize aspects of the doctrine on appeal when other aspects may be more applicable.<sup>45</sup>

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<sup>44</sup> Richard Posner, *HOW JUDGES THINK* 110–11 (Cambridge, 2008) (“At every stage the judge’s reasoning process is primarily intuitive. Given the constraints of time, it could not be otherwise; for intuition is a great economizer on conscious attention. The role of the unconscious judge in judicial decision making is obscured by the convention that requires a judge to explain his decision in an opinion. The judicial opinion can best be understood as an attempt to explain how the decision, even if (as is most likely) arrived at on the basis of intuition, could have been arrived at on the basis of logical, step-by-step reasoning . . .”).

<sup>45</sup> See Lee Petherbridge, *supra* note 39, at 1304.

The objectivity of this aspect of the analysis was enhanced by subjecting the coding to independent verification by a research fellow at the Fordham University School of Law and two student research assistants at the John Marshall Law School. Where coding results differed, results were compared and corrections were made to the dataset. The statistical techniques used are largely simple descriptive statistics, including graphical representations that describe variables in histograms or pie charts. These graphs allow the reader a quick and easy look at how different variables relate to each other, such as trends over time and how outcomes may be affected by characteristics such as the type of industry or category of misuse concerned. However, the value of empirical work like this is to articulate judicial decision-making in a systematic and comprehensible way.

### C. Interviews

The second principal component of this book is to link both conventional wisdom and the unearthed data from the case content analysis to the larger socio-legal context through interviews. Law is an integral part of the broader society and culture. It is part of a complex web of factors, but it is not a seamless web unto itself.<sup>46</sup> The law is crafted to influence human behavior, and effective laws are hard to craft and implement.<sup>47</sup> At times, the law may fail those it governs, but human ingenuity supplements, and at times outperforms, what formal law can offer. At other times, it is human ingenuity that leads to suboptimal and occasionally tragic outcomes. The Law and Society perspective, the study of how humans relate to society in the context of laws, gives us both the means and the responsibility to better understand, and hence to improve, the world around us through invisible but integral threads that weave through misuse cases. Interviewees sometimes prefaced their answers with the caveat that their views straddle the narrow border between anecdotal observations and reasoned speculation. In attempting to unravel the contours of misuse, this study unearthed few definitive clues. While these clues provide some fodder for intuitive conclusions, this study accepts and echoes the prudence of the interviewees' caveat.

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<sup>46</sup> See Lawrence M. Friedman, *Is there a Modern Legal Culture*, 7 *RATIO JURIS* 117, 118 (1994) (noting that legal culture refers to ideas, values, attitudes, and opinions with regard to law and the legal system).

<sup>47</sup> See Lawrence M. Friedman, *THE LEGAL SYSTEM: A SOCIAL SCIENCE PERSPECTIVE* (1979); Stewart Macaulay et al., *LAW IN ACTION: A SOCIO-LEGAL READER* 397 (2007) (factors include: the nature of the sanction and behavior controlled; the perceived risk and immediacy realizing the sanction; and the number and personality of the people affected).

The case content analysis spans 60 years and 368 opinions. The opinions are segmented into 36 variables coded quantitatively. In contrast, the interviews are contemporary, narrative and organic. The datasets therefore complement, rather than substitute for, each other. The sum of the findings present an empirical analysis of how federal judges employed the misuse doctrine, and how misuse is currently perceived by contemporary judges, academics, government officials, and lawyers. It also provides an indication of whether more in-depth research is required to unravel the nature and extent of the interaction between patent misuse and antitrust.

In line with the overarching goal of capturing stakeholders' views as accurately as possible, this study uses more direct quotations than usual in academic articles or treatises. The verbatim language in these carefully selected quotations conveys not only information and analysis, but the character and tone of those who make them. In this way, the legal consciousness of those who have discussed or decided cases involving patent misuse have their thoughts presented as a quilted fabric, and leave it to the reader to determine their veracity and persuasiveness. This last point underscores the living, dynamic, and interactive aspect of empirical work, which sets it apart from much of traditional legal scholarship.

The significant question for this study is not which view of patent misuse is best. Rather, the focus is on presenting the past and current state of the patent and antitrust communities through court opinions, commentary, and in-depth interviews with those in these communities. In this way the study attempts to draw out an objective measure against which to measure conventional wisdom. A judge who was interviewed noted that academic work is more valuable when it presents policy recommendations based on facts rather than opinions.<sup>48</sup> Perhaps the perception is that work based on personal bias is less useful than more verifiable data-based conclusions. Thus while this study may offer observations on the various views, and may identify questionable assertions found in the literature and opinions, it attempts to retain a measure of objectivity by discussing the collected data rather than by advancing a personal view of patent misuse.

A study of patent misuse gives rise to multifarious issues. While every effort has been made to chart and discuss the key facets of misuse, a study like this cannot cover everything, and should never pretend to. A number of notable issues and perspectives are missing in whole or in part. These

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<sup>48</sup> On file with author. (Noting that “where the policy is in the eye of a commentator but it’s not in the case law, I feel I have to be quite hesitant to not adopt some personal policy and then try to implement it in the case law. That’s not a legitimate role, in my view, for an appellate judge. I’m not the policy arbiter. The Congress is the policy arbiter, or maybe the Supreme Court in certain instances”.)

qualitative and quantitative indicia can then be examined, explained, and criticized. The exercise may seem contrived at times, but it is crucial to reaching an informed conclusion to the debate. The interpretations offered are the ones considered most likely in light of the data, and the study attempts to explain why this is so. However, other narratives might be developed from the results presented.

#### **D. Structure and Outline**

The first chapter traces the roots of patent misuse to its origins in equity. It explains how equity features in other areas of patent law, and how this can inform misuse analysis. The chapter then provides a primer to antitrust law before transitioning, first to its interface with intellectual property law, and then to misuse. Drawing on recent empirical data, the chapter identifies a surprisingly disproportionate increase in the number of patent litigation cases compared to those cases asserting patent misuse as a defense. This finding sets the stage for an examination of the possible reasons for this in subsequent chapters.

The second chapter presents a brief history of misuse. It traces misuse to its earliest roots in 1917, when the Supreme Court refused to enforce a patent against providers of inputs to be used with the patented invention because to do so would be to allow the patentee to extend its rights beyond the statutory scope of the patent. From there, misuse became intertwined with the antitrust laws until the Supreme Court severed those cords in 1942. Subsequent cases, however, muddled the two. The growing importance of science and technology and divergent views on patent rights precipitated the establishment of the Federal Circuit in 1982 to harmonize federal patent law. Today the Federal Circuit's oversight of patent appeals from district courts has led to a novel formulation of misuse that is tied to a new antitrust rubric that remains inalterable by all but the Supreme Court. The chapter concludes by posing the question whether a specialist penultimate court is better placed than a generalist court of last resort to determine the correct formulation of the misuse doctrine.

The third chapter introduces the key forms of misuse. Weaving together case law and commentary, the chapter narrates how each of these forms of misuse has shaped the jurisprudential landscape. The most common forms featured in the literature are tying and time extensions. The former requires the licensee to purchase an unpatented product used in conjunction with the patented good from the patentee, to the exclusion of the patentee's other competitors. The latter requires the licensee to continue paying royalties beyond the date the patent has expired. Misuse, however, rapidly morphed beyond these prototypes. Misuse today includes royalty

and restrictive obligations placed upon the licensee, patent pools, and trademark-related misuse. The chapter also examines how the wrongful procurement and enforcement of the patent right can also give rise to misuse.

The fourth chapter considers the three main objections to misuse—vagueness, lax standing requirements, and the risk of over-detering would-be patentees. First, the study notes that the vagueness of misuse stems both from its nature as an equitable defense as well as a lack of a coherent theory about what misuse represents and the kinds of wrongdoings it should address. At the same time, it also notes a recent interest by courts and commentators in rethinking these fundamental points of jurisprudence in giving meaning to its roots in equity and patent policy. There are also views that misuse has no less potential to be administrable or effective than the antitrust laws. Second, it notes that those asserting that misuse provides overbroad standing requirements to vigilantes, who are not themselves harmed, may stem from ill-informed rhetoric. Case law states that misuse exists to protect the public interest and not the interests of the parties in suit. For this reason, misuse is unusual in allowing even infringers with unclean hands to assert the defense, because they serve as proxies to the public in bringing the patentees' conduct before judicial scrutiny. Further, the study reveals that licensees or competitors from nearly all of the cases studied alleged direct harm from the misuse. To the final argument that misuse is overly harsh in rendering the patent unenforceable to the world at large prior to the purge of misconduct, the study observes that this is firstly a corollary to the public harm potentially caused by the misuse, and secondly that courts have exercised their discretion in tailoring the defense, even at times refusing to give effect to it notwithstanding a finding of misuse in the interest of fairness between the parties.

The fifth chapter presents three specific areas where courts and commentators have expressed possible application of misuse, or have actually applied misuse: (1) standard-setting organizations, where patent owners entrap industries locked into a patented standard and then extort supernormal profits from “locked-in” users through deceptive conduct or collusive practices;<sup>49</sup> (2) settlement agreements by owners of patented

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<sup>49</sup> See, e.g., Richard Li-dar Wang, *Deviated, Unsound, and Self-Retreating: A Critical Assessment of the Princo v. ITC En Banc Decision*, 16 MARQ. INTELL. PROP. L. REV. 51, 79 (2012) (“It is the author’s hope that the Princo decision is an end to the beginning, not a beginning to end. Instead of substantially weakening the misuse doctrine, this decision could be an excellent stimulus and starting point for careful reflection on its function, foundation, and better configuration”);

drugs with generic drug companies, where branded drug companies justify paying the generic drug companies to keep out of their markets on the basis of their exclusionary patent rights; and (3) providing a foundation for neighboring doctrines, such as copyright and trademark misuse.<sup>50</sup> It also looks briefly at the European Union, which has attempted to address similar problems to those arising under misuse in the United States.

The sixth chapter introduces the quantitative aspect of the study on misuse. Drawing upon case content analysis, it unveils the rich and varied landscape of misuse. It examines the distribution of misuse cases across time and courts across the nation. It identifies the most common forms of procedural postures in misuse cases, and their outcomes at trial and on appeal and applications for certiorari. In particular it examines the peculiar relationship between bench and jury trials in misuse cases. The chapter identifies the most influential judges in shaping misuse at the Federal Circuit. It studies misuse cases proceeding under equity compared with those under the antitrust laws. It exposes the surprising variety of industries misuse cases occur in, and scrutinizes conventional wisdom put forth by leading thinkers concerning the influence of industry on the nature of misuse cases. The chapter reveals the 11 categories of misuse and charts their developments over time, with a surprising revelation—the quintessential form of misuse today is starkly different from yonder years. Finally the chapter concludes by looking to the future by charting the willingness of courts to expand the categories of misuse.

The seventh chapter begins the qualitative phase of the study. It deconstructs patent misuse into its component parts as they exist in the minds

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Christopher A. Suarez, *Look Before You “Lock”: Standards, Tipping, and the Future of Patent Misuse After *Princo**, 13 COLUM. SCI. & TECH. L. REV. 371 (2012) (“patent suppression agreements may still “leverage” existing patents in ways that unlawfully expand their scope”); Daryl Lim, *Misconduct in Standard Setting: The Case for Patent Misuse*, 51 IDEA 559 (2011).

<sup>50</sup> See, e.g., Alyssa L. Brown, *Modest Proposals for A Complex Problem: Patent Misuse and Incremental Changes to the Hatch-Waxman Act As Solutions to the Problem of Reverse Payment Settlements*, 41 U. BALT. L. REV. 583, 612–13 (2012) (“Given the varied nature of these settlements and the lack of information publicly available about them, as well as, the cost and time needed for the courts to determine whether agreements are anticompetitive or procompetitive under antitrust law, alternative solutions to the problem must be considered. . . . patent misuse represents one possible defense available to subsequent ANDA filers under the current system”); Cory J. Ingle, *Reverse Payment Settlements: A Patent Approach to Defending the Argument for Illegality*, 7 I/S: J. L. & POL’Y FOR INFO. SOC’Y 503 (Winter, 2012) (“While patent misuse is similar to antitrust analysis, the policy issues underlying patent misuse make it more sympathetic to the view of restricting suspicious reverse payment settlements”).

of judges. Modern-day misuse requires that the defendant show that the patentee has impermissibly broadened the “physical or temporal scope” of the patent grant with anticompetitive effect.<sup>51</sup> The chapter begins by examining what factors go into determining when patentees exceed the scope of their rights. Specifically, it attempts to deconstruct the analytical process judges employ, and articulates the policies driving misuse that have been obscured by rhetoric in the opinions. It finds that judges employ a surprisingly diverse array of perspectives in resolving the fundamental question of whether a patent right has been exceeded.

The appendices at the end of the study provide the interested reader with substantially more detail than is required to follow the discussion. These details were included so that the study could be as comprehensive as possible. Appendix I briefly discusses the methodology employed as well as the general limitations of this study. Appendix II presents the list of interviewees and Appendix III presents the interview protocol. A glossary of terms and details of key statutes appear in Appendix IV. Appendix V presents the coding form. Appendix VI contains a table of Supreme Court and Federal Circuit misuse cases and the judges presiding over the courts at each point in its history. The complete dataset containing the cases may be found on Edward Elgar’s website at <http://goo.gl/hUcly>.

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<sup>51</sup> *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986). The courts generally follow a rule of reason approach with a few per se misuse exceptions. See *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992) (establishing rule of reason analysis for patent misuse where conduct at issue is neither per se misuse nor exempt from misuse consideration by section 271(d) of the Patent Act).